

**COUNTY ROAD COMMISSION
OF LENAWEЕ COUNTY**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

**WITH
INDEPENDENT AUDITORS' REPORT**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LENAWEE COUNTY ROAD COMMISSION	County LENAWEE
Audit Date DECEMBER 31, 2004	Opinion Date FEBRUARY 9, 2005	Date Accountant Report Submitted to State: APRIL 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

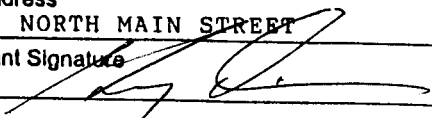
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.			
Street Address 121 NORTH MAIN STREET	City ADRIAN	State MI	ZIP 49221
Accountant Signature 			

LENAWEE COUNTY
COUNTY ROAD COMMISSION
INDEPENDENT AUDITORS' REPORT
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To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Lenawee County Road Commission, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Lenawee County Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lenawee County Road Commission, as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2005 on our consideration of the Lenawee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of County Road Commissioners
Lenawee County Road Commission
Adrian, Michigan

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Lenawee County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
February 9, 2005

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITORS' REPORT

To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

We have audited the accompanying financial statements of the Lenawee County Road Commission, as of and for the year ended December 31, 2004, and have issued our report thereon dated February 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Lenawee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Lenawee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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To the Board of County Road Commissioners
Lenawee County
Adrian, Michigan

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
February 9, 2005

Commissioners
Merrill Bales
Phillip Hart
Donald Isley

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LENAAWEE COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS
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2461 Treat Highway
Adrian, Michigan 49221-4009

Managing Director
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Board Secretary
Susan Bower, C.P.S.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE FINANCIAL STATEMENTS**

For the Year Ended December 31, 2004

Our discussion and analysis of the Lenawee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the individual fund, reporting the operations in more detail than the government-wide financial statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, you need to consider additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operating Fund, in which all of the Road Commission's activities are accounted. The General Operating Fund is a governmental fund type. Our analysis of the Road Commission's major fund (General Operating Fund) begins on page 11. The fund financial statements begin on page 13 and provide detailed information about the General Operating Fund.

Governmental Fund – This fund focuses on the inflows and outflows of money and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 0.92% \$142,251,398 from to \$143,560,029 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, assets (except for assets invested in capital assets, net of related debt) are considered restricted.

Unrestricted net assets are those assets earned by the Road Commission itself outside State and Federal funding (i.e., permits, inspections, salvage sales, and interest income).

The net assets increased by \$1,308,631 during 2004. The primary reason for the increase was an increase in gasoline tax revenue.

Net Assets (Continued)

The investment in capital assets decreased by \$(318,602).

Net assets for the years ended December 31, 2004 and 2003 follow:

	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 11,621,943	\$ 10,150,092
Capital assets	<u>132,728,395</u>	<u>132,753,303</u>
Total assets	<u>144,350,338</u>	<u>142,903,395</u>
Long-term liabilities	88,999	78,214
Other liabilities	<u>701,310</u>	<u>573,783</u>
Total liabilities	<u>790,309</u>	<u>651,997</u>
Net assets:		
Invested in capital assets	132,728,395	132,753,303
Restricted	8,169,326	6,909,152
Unrestricted	<u>2,662,308</u>	<u>2,588,943</u>
Total net assets	<u>\$ 143,560,029</u>	<u>\$ 142,251,398</u>

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2004 and 2003 follows:

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Program Revenue		
Federal grants	\$ 614,130	\$ 486,666
State grants	585,104	2,979,363
Contributions from local units	2,620,208	2,705,799
Charges for services	312,047	130,022
Asphalt plant revenue	946,471	1,003,675
General Revenue		
Motor Vehicle Highway Funds	7,734,360	7,310,201
Interest income	47,857	38,122
Miscellaneous	67,369	75,035
Gain on equipment sales	<u>21,000</u>	<u>51,109</u>
Total revenue	<u>12,948,546</u>	<u>14,779,992</u>
Expenses:		
Road work	10,832,046	13,384,203
Asphalt plant operations	<u>807,869</u>	<u>986,273</u>
Total expenses	<u>11,639,915</u>	<u>14,370,476</u>
Increase in net assets	<u>\$ 1,308,631</u>	<u>\$ 409,516</u>

The Road Commission's Fund

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the General Operating Fund increased \$1,344,324 as compared to an increase of \$845,212 in the fund balance for the year ended December 31, 2003. Total revenues were \$12,948,547, a decrease of (\$1,831,445) as compared to last year. This change in revenues resulted primarily from a decrease in Federal and State aid of (\$2,286,794). There was an increase in gasoline tax revenue in the amount of \$424,159. Total expenditures were \$11,604,223, a decrease of (\$2,330,557) as compared to last year. This change in expenditures is due primarily to a decrease in heavy maintenance projects of (\$3,432,606). There was an increase of \$1,200,086 in maintenance and traffic control projects completed during 2004. There was an increase in capital outlay in the amount of \$143,505 from the prior year.

A summary of changes in the Operating Fund is as follows:

	2004 Operating Fund	2003 Operating Fund	Favorable (Unfavorable) Variance	Change Percent (%)
Revenues:				
Motor Vehicle Highway Funds	\$ 7,734,360	\$ 7,310,201	\$ 424,159	5.8
Federal/State aid	1,199,235	3,466,029	(2,266,794)	(65.4)
Township contributions	2,496,118	2,661,255	(165,137)	(6.2)
Contributions - other	436,137	174,566	261,571	49.8
Interest income	47,857	38,122	9,735	25.5
Miscellaneous	67,369	75,035	(7,666)	(10.2)
Asphalt revenue	946,471	1,003,675	(57,204)	(5.7)
Gain on equipment sales	<u>21,000</u>	<u>51,109</u>	<u>(30,109)</u>	<u>(58.9)</u>
Total revenues	<u>12,948,547</u>	<u>14,779,992</u>	<u>(1,831,445)</u>	<u>(12.4)</u>
Expenditures:				
Road work	11,114,956	13,386,688	(2,271,732)	(17.0)
Asphalt plant operation	807,869	986,273	(178,404)	(18.1)
Net capital outlay	<u>(318,602)</u>	<u>(438,181)</u>	<u>119,579</u>	<u>27.3</u>
Total expenditures	<u>11,604,223</u>	<u>13,934,780</u>	<u>(2,330,557)</u>	<u>(16.7)</u>
Net change in fund balance	1,344,324	845,212	499,112	59.1
Fund balance - beginning of year	9,576,309	8,180,905	1,395,404	17.1
Adjustment - MVHF payment	<u> </u>	<u>550,192</u>	<u>(550,192)</u>	<u>(100.0)</u>
fund balance - end of year	<u>\$ 10,920,633</u>	<u>\$ 9,576,309</u>	<u>\$ 1,344,324</u>	<u>14.0</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget was only slightly higher (\$46,732) than the original revenue budget due to increased income generated from doing projects for other public agencies (cities, villages, and schools).

The actual revenue recognized during 2004 was more than the final amended budget by \$278,019. The variances were due to a one time trailer licensing fee initiated by the state legislature increasing Motor Vehicle Highway Funds, the Teachout Road bridge construction being delayed by the History Agency decreasing Federal and State Aid and Great Lakes Waste contributing to improvements to Parr Highway to upgrade to a Class "A" truck route thus increasing contributions by others. The detail variances in all revenue line-items are shown on page 16.

The final amended expenditure budget for 2004 was decreased by \$470,000 from the original budget to balance the budget. Anticipated spending of the fund balance was not necessary. This was primarily due to a lack of spending on Capital Equipment.

The actual expenditures recognized during 2004 were less than the final amended budget by \$1,066,305. This was primarily due to a decrease in administrative expenses (variances) and several Heavy Maintenance projects, both primary and local, that were not able to be completed due to an increased work load and an early winter. The detail variances in all expenditure line-items are noted on page 16.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2004, the Road Commission had invested \$132,728,395 in capital assets. This amount represents a net decrease of (\$24,907).

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change</u>
Capital Assets Not Being Depreciated			
Land	\$ 533,333	\$ 533,333	-0-
Capital Assets Being Depreciated			
Buildings	6,665,129	6,665,129	-0-
Equipment	13,169,531	12,641,596	4.2
Depletable assets	<u>317,484</u>	<u>317,484</u>	-0-
Subtotal	20,152,144	19,624,209	
Capital Assets Using Modified Approach			
Roads, bridges, and culverts	<u>124,574,245</u>	<u>124,280,551</u>	0.24
Subtotal	<u>144,726,389</u>	<u>143,904,760</u>	
Total capital assets	145,259,722	144,438,093	
Total accumulated depreciation	<u>(12,531,327)</u>	<u>(11,684,790)</u>	
Total net capital assets	<u>\$ 132,728,395</u>	<u>\$ 132,753,303</u>	

Capital Assets (Continued)

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$124,574,245 using the modified approach for evaluation.

This year's major capital assets additions included the following:

Equipment	\$ 604,508
Primary road improvement	<u>293,694</u>
Total additions	<u>\$ 898,202</u>

Economic Factors and Next Year's Budget

The Board of Lenawee County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. With the rising cost of fuel, the result is usually that motorists tend to be very conservative with their driving habits. This can result in a reduction of gas usage reducing gas tax revenues. Also in 2004, the legislature passed a one time trailer license fee that was good as long as the owner had the trailer. Although this increased revenues from the Motor Vehicle Highway Fund in 2004, there has been no indication of how the loss in annual trailer license fees will affect the revenues of the State for succeeding years. Township road and bridge projects constitute approximately 16% of total revenues for this year. Down slightly from last year due to continued reduction in Revenue Sharing Funds to the townships which affect many townships negatively with their ability to fund road projects. The anticipated reduction in these two areas has been offset by an increase in Funds received from State and Federal programs. A project to relocate the Valley Road bridge at Carson Highway and a project to reconstruct Valley Road from M-52 to a Class "A" standard are being funded with funds from the Economic Development Fund, Category "F", and from Urban Funds. These are cyclical as they are shared with other transportation agencies. Each agency takes turns using these funds in alternating years. Other revenues were budgeted from last year's carryover in projects not completed and equipment not purchased although budgeted in 2004.

The above major factors and several minor factors led to what is considered a very conservative budget for 2005. Amounts available for revenues in the budget are \$12,916,500, an increase of 2% over the 2004 adjusted budget.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Lenawee County Road Commission's administrative offices at 2461 Treat Highway, Adrian, Michigan 49221.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
STATEMENTS OF NET ASSETS
December 31, 2004 and 2003

	<u>Governmental Activity</u>	
	<u>General Operating</u>	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
County Treasurer's cash accounts	\$ 6,739	\$ 3,497
Imprest cash	250	250
Accounts receivable		
Road Agreements – Townships	414,281	328,044
Cities, Villages, and Individuals	42,997	73,470
Due from State - MVHF payments	1,186,512	1,191,925
Inventories		
Equipment, materials, and parts	416,939	340,869
Road materials	2,970,902	2,804,963
Investments		
Board designated	500,000	500,000
Performance bond deposits	103,645	94,585
Other	5,771,307	4,619,899
Prepaid expense	208,371	192,590
Capital assets - net	<u>132,728,395</u>	<u>132,753,303</u>
Total assets	<u>\$ 144,350,338</u>	<u>\$ 142,903,395</u>
<u>LIABILITIES</u>		
Liabilities:		
Accounts payable	\$ 314,717	\$ 63,998
Accrued payroll and payroll taxes	137,916	122,257
Advances - Townships	55,449	122,354
Performance bond deposits	103,645	94,585
Accumulated sick and vacation pay – current	64,168	54,920
Deferred revenue	25,415	115,669
Accumulated sick and vacation pay – noncurrent	<u>88,999</u>	<u>78,214</u>
Total liabilities	<u>\$ 790,309</u>	<u>\$ 651,997</u>
Net assets:		
Investment in capital assets	\$ 132,728,395	\$ 132,753,303
Restricted	8,169,326	6,909,152
Unrestricted	<u>2,662,308</u>	<u>2,588,943</u>
Total net assets	<u>\$ 143,560,029</u>	<u>\$ 142,251,398</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	PROGRAM REVENUES				Net (Expenses) Revenue And Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activity Totals	
					2004	2003
Primary Roads						
Heavy maintenance – LCRC	\$ 1,582,235	\$	\$	\$ 473,356	\$ (1,108,879)	\$ (1,651,206)
Heavy maintenance – OSC	20,134			18,137	(1,997)	(183,785)
Maintenance and traffic control	2,637,942				(2,637,942)	(1,761,372)
Local Roads						
Heavy maintenance – LCRC	2,047,021			2,620,208	573,187	34,437
Heavy maintenance – OSC	751,724			707,741	(43,983)	(152,494)
Maintenance and traffic control	3,182,518	312,047			(2,870,471)	(2,723,346)
Administrative Expenses						
Administrative expense – net	(255,787)				255,787	59,962
Equipment Operating Expenses						
Equipment operating expenses – net	846,219				(846,219)	(697,515)
Asphalt plant operations	807,869	946,471			138,602	17,402
Salt brine well	20,040				(20,040)	(7,034)
Total	11,639,915	1,258,518	-	3,819,442	(6,561,955)	(7,064,951)
General Revenues:						
Motor Vehicle Highway Funds					7,734,360	7,310,201
Interest income					47,857	38,122
Miscellaneous					67,369	75,035
Gain on equipment sales					21,000	51,109
Total general revenues					7,870,586	7,474,467
Change in net assets					1,308,631	409,516
Net assets – beginning of year					142,251,398	141,841,882
Net assets – end of year					\$ 143,560,029	\$ 142,251,398

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
BALANCE SHEETS
GOVERNMENTAL FUND
December 31, 2004 and 2003

	<u>ASSETS</u>	<u>General Operating</u>	
		<u>2004</u>	<u>2003</u>
County Treasurer's cash accounts		\$ 6,739	\$ 3,497
Imprest cash		250	250
Accounts receivable			
Road Agreements - Townships		414,281	328,044
Cities, Villages, and Individuals		42,997	73,470
Due from State - MVHF payments		1,186,512	1,191,925
Inventories			
Equipment, materials, and parts		416,939	340,869
Road materials		2,970,902	2,804,963
Investments			
Board designated		500,000	500,000
Performance bond deposits		103,645	94,585
Other		5,771,307	4,619,899
Prepaid expense		<u>208,371</u>	<u>192,590</u>
Total assets		<u>\$ 11,621,943</u>	<u>\$ 10,150,092</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable		\$ 314,717	\$ 63,998
Accrued payroll and payroll taxes		137,916	122,257
Advances - Townships		55,449	122,354
Performance bond deposits		103,645	94,585
Accumulated sick and vacation pay		64,168	54,920
Deferred revenue		<u>25,415</u>	<u>115,669</u>
Total liabilities		<u>701,310</u>	<u>573,783</u>
Fund balance:			
Motor Vehicle Highway Funds			
Primary Road		\$ 7,571,969	6,897,515
Local Road		686,356	89,851
County Road Commission Funds			
Undesignated		2,162,308	2,088,943
Designated by Board (Note 4)		<u>500,000</u>	<u>500,000</u>
Total fund balance		<u>10,920,633</u>	<u>9,576,309</u>
Total liabilities and fund balance		<u>\$ 11,621,943</u>	<u>\$ 10,150,092</u>
Amounts reported for Governmental Activity in the Statement of Net Assets (Page 11) are different because:			
Fund balance - General Operating Fund		\$ 10,920,633	\$ 9,576,309
Capital assets used in governmental activity are not financial resources and, therefore, are not reported in the fund.		132,728,395	132,753,303
Long-term liability - accrued sick and vacation - is not due and payable in the current period and, therefore, is not reported in the fund.		<u>(88,999)</u>	<u>(78,214)</u>
Net assets		<u>\$ 143,560,029</u>	<u>\$ 142,251,398</u>

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

For the Year Ended December 31, 2004
With Comparative Totals for the Year Ended December 31, 2003

	<u>General Operating Fund</u>			<u>2004</u>	<u>Total</u> <u>2003</u>
	<u>Primary Road Funds</u>	<u>Local Road Funds</u>	<u>County Road Funds</u>		
Revenues:					
Motor Vehicle Highway Funds:					
Engineering	\$ 7,500	\$ 2,500	\$	\$ 10,000	\$ 10,000
Allocation	4,758,164	2,459,048		7,217,212	6,799,417
Urban road	390,651	116,497		507,148	500,784
State critical bridge		111,749		111,749	284,652
Pilot project	473,356			473,356	1,176,563
Federal aid – roads	18,137			18,137	486,666
Federal aid – bridges		595,993		595,993	1,518,148
Township contributions		2,496,118		2,496,118	2,661,255
Other contributions		436,137		436,137	174,566
Miscellaneous revenue:					
Interest income	34,470	449	12,938	47,857	38,122
Licenses, permits, inspections			59,505	59,505	68,653
Asphalt revenue	506,646	439,825		946,471	1,003,675
Salvage sales			7,864	7,864	6,382
Gain on equipment sales	9,481	8,845	2,674	21,000	51,109
Total revenues	<u>6,198,405</u>	<u>6,667,161</u>	<u>82,981</u>	<u>12,948,547</u>	<u>14,779,992</u>
Expenditures:					
Heavy maintenance	1,894,958	2,797,312		4,692,270	8,124,876
Maintenance and traffic control	2,635,485	3,179,340		5,814,825	4,614,739
Administrative expense – net	(110,290)	(145,497)		(255,787)	(57,477)
Equipment expense – net	316,100	480,856	46,651	843,607	697,516
Capital outlay – net	(144,754)	(116,772)	(57,075)	(318,601)	(438,181)
Asphalt plant operation	432,452	375,417		807,869	986,273
Salt brine well			20,040	20,040	7,034
Total expenditures	<u>5,023,951</u>	<u>6,570,656</u>	<u>9,616</u>	<u>11,604,223</u>	<u>13,934,780</u>
Excess of revenues over expenditures	1,174,454	96,505	73,365	1,344,324	845,212
Other financing sources (uses):					
Transfers in/(out)	(500,000)	500,000			
Net change in fund balance	674,454	596,505	73,365	1,344,324	845,212
Fund balance - beginning of year	6,897,515	89,851	2,588,943	9,576,309	8,180,905
Add: Adjustment – MVHF payment					550,192
Fund balance - end of year	<u>\$ 7,571,969</u>	<u>\$ 686,356</u>	<u>\$ 2,662,308</u>	<u>\$ 10,920,633</u>	<u>\$ 9,576,309</u>

The notes to the financial statements are an integral part of this statement.

LENAAWEE COUNTY

COUNTY ROAD COMMISSION

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2004

Amounts reported for governmental activity in the Statement of Activities
(Page 12) are different because:

Net change in fund balance (Page 14) \$ 1,344,324

The Governmental Fund reports capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. Or, in the case of roads, bridges, and culvert, reported on the modified approach. The amount presented represents the excess of depreciation expense over capital outlay for the year. (24,907)

The net change in long-term accrued sick and vacation reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the Governmental Fund. Net change is an increase in liability and results in additional expense. (10,786)

Change in net assets (Page 12) \$ 1,308,631

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY

COUNTY ROAD COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

GENERAL OPERATING FUND

For the Year Ended December 31, 2004

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Revenues:				
Motor Vehicle Highway Funds	\$ 7,353,000	\$ 7,353,000	\$ 7,734,360	\$ 381,360
Federal/State aid	1,703,910	1,703,910	1,199,235	(504,675)
Township contributions	2,358,886	2,358,886	2,496,118	137,232
Cities, villages, and other contributions	75,000	121,732	436,137	314,405
Interest income	33,000	33,000	47,857	14,857
Miscellaneous	80,000	80,000	67,369	(12,631)
Asphalt revenue	1,000,000	1,000,000	946,471	(53,529)
Gain on equipment sales	<u>20,000</u>	<u>20,000</u>	<u>21,000</u>	<u>1,000</u>
Total revenues	<u>12,623,796</u>	<u>12,670,528</u>	<u>12,948,547</u>	<u>278,019</u>
Expenditures:				
Primary Roads				
Heavy maintenance – LCRC	2,462,000	2,012,000	1,874,824	137,176
Heavy maintenance – OSC		30,000	20,134	9,866
Maintenance and traffic control	2,263,000	2,753,000	2,635,485	117,515
Local Roads				
Heavy maintenance – LCRC	1,978,886	2,278,886	2,045,588	233,298
Heavy maintenance – OSC	1,214,642	764,642	751,724	12,918
Maintenance and traffic control	2,779,000	3,229,000	3,179,340	49,660
Administrative Expenses:				
Administrative expense	2,300,000	2,000,000	1,498,507	501,493
Less: Overhead credits and purchase discount	(2,060,000)	(1,760,000)	(1,754,294)	(5,706)
Equipment Expense:				
Equipment expense	3,340,000	3,340,000	3,264,714	75,286
Less: Equipment rental credit	(2,250,000)	(2,500,000)	(2,421,107)	(78,893)
Asphalt plant operation	900,000	900,000	807,869	92,131
Capital outlay/building construction	1,103,000	603,000	604,508	(1,508)
Less: Depreciation credits	(1,000,000)	(1,000,000)	(923,109)	(76,891)
Salt brine well	10,000	20,000	20,040	(40)
Contingency	<u>100,000</u>			
Total expenditures	<u>13,140,528</u>	<u>12,670,528</u>	<u>11,604,223</u>	<u>1,066,305</u>
Net change in fund balance	(516,732)	-	1,344,324	
Fund balance – beginning of year			<u>9,576,309</u>	
Fund balance – end of year			<u>\$ 10,920,633</u>	

The notes to the financial statements are an integral part of this statement.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The Lenawee County Road Commission is a component of the County of Lenawee.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective January 1, 2003, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared using full accrual accounting for all of the Road Commission’s activities, including infrastructure (road, bridges, etc.).
- A change in the fund financial statements to focus on the major fund.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Road Commission has elected to implement the general provisions of the statement.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the activities of the Road Commission. The Road Commission consists solely of a governmental-type activity; no business-type activity exists.

The fund financial statements are provided for governmental funds, and have been separately stated in conjunction with the governmental-wide financial statements.

The major individual governmental fund (General Operating Fund) is reported in the fund financial statement.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis.

The Road Commission reports the following major governmental fund:

The General Operating Fund is used to account for the proceeds of earmarked revenue or financial activities required under legal or regulatory provisions for road commissions in the State of Michigan.

Cash and Investments – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value.

Inventory and Prepaid Expense – Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of the governmental fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, building, equipment, and infrastructure assets (e.g., road, bridges, and culvert) are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, except as noted below. Donated capital assets are recorded at estimated fair market value at the date of donation.

The modified approach, as defined in GASB 34, is used to value roads, bridges, and culvert in the County. The Road Commission has a asset management system with the required characteristics to use this approach.

Capital assets that are depreciated use the straight-line method over the following useful lives:

Buildings	40 to 60 years
Machinery and equipment	5 to 20 years

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave) – It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The current portion of this liability is reported in governmental funds.

Fund Equity – In the fund financial statements, the governmental fund reports restricted and unrestricted/designations of fund balance for amounts that represent restrictions by the State under Act 51 for Motor Vehicle Highway Funds; and designations by the County Road Commissioners.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH AND INVESTMENTS

At year end, the carrying value of the Road Commission's deposits was \$6,989 and bank balance was \$129,159. All investments of the Road Commission are currently in bank cash management accounts. The total carrying value, which approximates market, of investments was \$6,374,952. Of the bank balance and investments, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. At certain times of the year, usually late fall or early winter, the Road Commission's uncollateralized deposits can increase significantly; as a result, the amounts of uncollateralized deposits at this time can be substantially higher. All deposits are with banks located in Michigan as required by statutes. All investments are with Michigan banks and authorized by statutes.

A listing of investments is provided in Note 3 to the financial statements.

NOTE 3. INVESTMENTS

Investments are in Cash Management Accounts at United Bank & Trust. All investments are stated at cost which approximates market. The investments are:

<u>Bank</u>	<u>2004</u>	<u>2003</u>
Account 9003169	\$ 5,717,233	\$ 4,497,205
Account 9003355	500,582	500,231
Account 9003290	101,570	94,628
Account 9003223	<u>55,567</u>	<u>122,420</u>
	<u>\$ 6,374,952</u>	<u>\$ 5,214,484</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 3. INVESTMENTS (Continued)

The Road Commission is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

NOTES 4. INVESTMENTS – BOARD AND DONOR DESIGNATED

The Board of Road Commissioners has through adopted resolutions designated a portion of invested funds for specified future uses. The designations are:

- A. **Equipment Fund** - investments to be used for future equipment purchases of the Lenawee County Road Commission.
- B. **Asphalt Plant Fund** - investments to be used for the maintenance of the asphalt plant and related equipment.

The investment balances of these designated funds at December 31, 2004 are as follows:

Equipment Fund	\$ -
Asphalt Plant Fund	<u>500,000</u>
	<u>\$ 500,000</u>

These designated funds are discussed below:

A. Equipment Fund

The Board of Road Commissioners has adopted a policy for the establishment and funding of an Equipment Fund. The fund is used to purchase all fixed assets for the Lenawee County Road Commission unless otherwise specified by the Board. Funding is determined by the fixed assets purchased, equating the year end balance to zero. Also, the proceeds on the sale of used equipment is additional funding of the Equipment Fund.

Activity of the Equipment Fund for 2004 follows:

Balance	January 1, 2004	\$ -
Add:	Funding	583,508
Add:	Sales of equipment	21,000
Less:	Fixed asset purchases by this fund	<u>(604,508)</u>
Balance	December 31, 2004	<u>\$ -</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTES 4. INVESTMENTS – BOARD AND DONOR DESIGNATED (Continued)

B. Asphalt Plant Fund

The Board of Commissioners established this fund for the maintenance of the asphalt plant and related equipment. Maximum funding is \$500,000.

Activity of the Asphalt Plant Fund:

Balance	January 1, 2004	<u>\$ 500,000</u>
Balance	December 31, 2004	<u>\$ 500,000</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 533,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 533,333</u>
Capital assets being depreciated:				
Buildings	6,665,129			6,665,129
Equipment	12,641,596	604,508	(76,573)	13,169,531
Depletable assets	<u>317,484</u>			<u>317,484</u>
Subtotal	<u>19,624,209</u>	<u>604,508</u>	<u>(76,573)</u>	<u>20,152,144</u>
Capital assets using modified approach:				
Roads, bridges, and culverts	<u>124,280,551</u>	<u>293,694</u>	<u>-</u>	<u>124,574,245</u>
Total capital assets	<u>144,438,093</u>	<u>898,202</u>	<u>(76,573)</u>	<u>145,259,722</u>
Less accumulated depreciation for:				
Buildings	(1,346,588)	(176,084)		(1,522,672)
Equipment	(10,214,549)	(734,198)	76,573	(10,872,174)
Depletable assets	<u>(123,654)</u>	<u>(12,827)</u>		<u>(136,481)</u>
Subtotal	<u>(11,684,791)</u>	<u>(923,109)</u>	<u>76,573</u>	<u>(12,531,327)</u>
Net capital assets	<u>\$ 132,753,302</u>	<u>\$ (24,907)</u>	<u>\$ -</u>	<u>\$ 132,728,395</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 5. CAPITAL ASSETS (Continued)

Modified Approach

The Lenawee County Road Commission has chosen to use the modified approach in valuing its roads, bridges, and culvert.

The values are based on condition assessments going back to 1996.

Roads

The Lenawee County Road Commission's Engineering Department incorporated actual Act 51 Certification Mileage, Roadsoft software for road condition evaluations, and known installed material costs to determine the current value of all certified county primary and county local roads. Roadsoft is a road condition evaluation software using a standard Paser Rating system, (Pavement, Surface, Evaluation, and Rating). The evaluation system is a 1 through 10 rating system where 10 is best and 1 is the worst. Roadsoft software is developed by Local Technical Assistance Programs (LTAP) via contract with the Michigan Department of Transportation (MDOT). Roadsoft software is also the currently accepted software by the Transportation Asset Management Council to be used for Asset Management data collection. The known installed material costs were generated from recent new road construction projects overseen via MDOT. Additional road cost data was generated in cooperation and assistance from the Operations Department. These two areas of data were compared and/or combined and adjusted for local installed construction costs. The total number of miles for Class "A" All Season, Non-Class "A" Asphalt, Gravel, and Sealcoat roads for both Primary and Local roads were evaluated as new and then depreciated by the Paser rating to determine its current value. The new road installed construction costs used are as follows:

	<u>Primary</u>	<u>Local</u>
• Class "A" All Season	\$340,000 / Mile	\$340,000 / Mile
• Non-Class "A" Asphalt	\$170,000 / Mile	\$170,000 / Mile
• Sealcoat	\$30,000 / Mile	\$30,000 / Mile
• Gravel	\$22,500 / Mile	\$22,500 / Mile

Bridges

All bridges were identified through the Lenawee County Road Commission's Engineering Department using the current required MDOT Bridge Inventory. All Bridges are required to be inspected every two years using evaluation software distributed via MDOT called Pontis. This evaluation system is a 1 through 10 rating system where 10 is best and 1 is the worst. An assumption was made that all traversable bridges in the county are of value regardless of the type of construction. In addition, that some of the older bridges, regardless of type, could or would be placed on the MDOT Critical Bridge List. Therefore, a value could be determined using a standard square foot of bridge deck cost established via MDOT for use in the Pontis software and during the Critical Bridge List submittal. The standard square foot of bridge deck cost established via MDOT and used for this report is \$134.00 per square foot. All bridges were evaluated and a value was determined as new based on the square feet of bridge deck. The structures were then depreciated by its rating to determine a current value

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 5. CAPITAL ASSETS (Continued)

Culverts

All culverts were identified through the Lenawee County Road Commission's Engineering Department using a culvert inventory that was established in 1998 and is constantly updated as new or existing information is generated. The standard culverts that are documented and evaluated regardless of type and includes culvert 30 inches in diameter or larger. The evaluation standard used is referenced from MDOT Form P2503, Culvert Inspection Report. The evaluation system is a 1 through 9 rating system where 9 is new, 7-8 is good, 5-6 is fair, 4 is marginal, 3 is poor, and 2 or less is critical. The value of the culverts were determined by the use of MDOT's Weighted Average Item Prices - English, July 01, 2003 to June 20, 2004, Design Support Area, State Transportation Commission. All culverts were evaluated and a value was determined as new, based on the lineal feet of culvert and the weighted average item price. The structures were then depreciated by its rating to determine a current value.

Conclusion

All of the Lenawee County Road Commission's Infrastructure Assets were evaluated using the most current data available via the use of Roadsoft and Pontis software and Culvert Inventory documents and evaluations. The current value of the Infrastructure Assets were determined via the use of the most recent MDOT installed material cost incorporated with the most recent local information. All assets were identified and a value determined as new then depreciated by its respective rating to determine its current value. The following is a tabulation of those current values.

County Primary Roads

	<u>Miles</u>	<u>New Construction Value</u>	<u>Current Value</u>
Class "A"	89.63	\$ 30,597,894	\$ 21,145,554
Asphalt	331.11	56,373,700	33,342,950
Gravel	40.53	911,925	472,995
Sealcoat	<u>26.42</u>	<u>792,600</u>	<u>207,480</u>
Totals	<u>487.69</u>	<u>88,676,119</u>	<u>55,168,979</u>

County Local Roads

	<u>Miles</u>	<u>New Construction Value</u>	<u>Current Value</u>
Class "A"	1.10	374,000	299,200
Asphalt	342.51	58,226,700	29,154,820
Gravel	611.22	13,752,450	7,374,780
Sealcoat	<u>84.21</u>	<u>2,526,300</u>	<u>946,680</u>
Totals	<u>1039.04</u>	<u>74,879,450</u>	<u>37,775,480</u>
Total County Roads	<u>1526.73</u>	<u>\$ 163,555,569</u>	<u>\$ 92,944,459</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 5. CAPITAL ASSETS (Continued)

County Primary Bridges

	<u>Quantity</u>	<u>Current Value</u>
Concrete	37	\$ 8,387,665
Steel	13	2,314,679
Timber	<u>15</u>	<u>2,189,589</u>
Total	<u>65</u>	<u>\$ 12,891,933</u>

County Local Bridges

	<u>Quantity</u>	<u>Current Value</u>
Concrete	55	\$ 11,249,385
Steel	22	1,408,468
Timber	<u>28</u>	<u>3,207,051</u>
Total	<u>105</u>	<u>\$ 15,864,904</u>

County Bridges Totals

	<u>Quantity</u>	<u>Current Value</u>
Concrete	92	\$ 19,637,050
Steel	35	3,723,147
Timber	<u>43</u>	<u>5,396,640</u>
Total County Bridges	<u>170</u>	<u>\$ 28,756,837</u>

Culverts

<u>Primary</u>	<u>Local</u>	<u>Total</u>
<u>\$ 1,449,431</u>	<u>\$ 1,423,518</u>	<u>\$ 2,872,949</u>

Total County Roads, Bridges, and Culverts	<u>\$ 124,574,245</u>
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LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 5. CAPITAL ASSETS (Continued)

The history of annual maintenance costs required to maintain the roads, bridges, and culverts at their current value level are as follows:

<u>Year</u>	<u>Maintenance</u>	<u>Actual Heavy Maintenance</u>	<u>Total</u>	<u>Estimated/ Budgeted Total</u>
2004	\$ 5,814,825	\$ 4,692,270	\$ 10,507,095	\$ 11,067,528
2003	4,614,739	8,124,876	12,739,615	13,883,635
2002	4,068,573	6,212,943	10,281,516	10,410,807
2001	3,661,839	6,032,507	9,694,346	9,968,600
2000	4,317,980	4,557,133	8,875,113	9,173,077

NOTE 6. PERFORMANCE BOND DEPOSITS

Performance bond deposits at December 31, 2004 are:

Sand Creek Telephone	\$ 1,000
Midwest Energy	1,000
Halgus Sprinkler Systems	500
Clifton McCormick	500
Madison Township	1,000
Faling Residential Builders	4,500
Partridge Farms Excavating	1,500
Robert L. Johnson Construction	4,000
Robert McMordie	500
Debra Weaton	300
Swift Properties	1,500
Verizon	7,100
Lenawee County Drain Commission	500
Adrian Township	3,500
Jeffrey Van Havel	1,000
Skyline Services, LLC	1,500
Great Lakes Waste	1,500
Don Quality Cable	500
Western Tel-Com, Inc.	1,500
M & M Paving Marking	3,500
Michael Fitch	8,600
Brady Sand Gravel	4,590
Sylvester Material Co.	<u>5,660</u>
Total carried forward	<u>\$ 55,750</u>

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 6. PERFORMANCE BOND DEPOSITS (Continued)

Total carried forward	\$ 55,750
State Line Farms	800
Slusarski Excavating	1,000
CTE Sand & Gravel	3,000
New Flevo Dairy, Inc.	7,000
Waynick's Landscaping	1,500
Baker Construction	3,654
Tim Hoag	500
Wilson Backhoe	1,000
Bales	4,100
R. S. Construction	2,571
Sloan Excavating	1,000
Waterland Trucking	15,170
Wilson Builders	1,500
Lasershot	1,000
Keith's Trenching	300
Ronald S. Ferell	500
West Adrian Cemetery	1,500
Roe Brothers	1,500
Maurice Denecker	<u>300</u>
	<u>\$ 103,645</u>

NOTE 7. OTHER LONG-TERM LIABILITIES

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and for property loss, torts, and errors and omissions.

The Lenawee County Road Commission has its workers' compensation coverage with the Michigan County Road Association Self-Insurance Fund. The reserve for open claims involving the Lenawee County Road Commission, as of December 31, 2004, is \$118,158 which is handled by the Fund.

Accumulated Sick Leave and Vacation Liability

Under union contract and Road Commission policy, individual employees have a vested right to receive payment for one-half of unused sick leave and all accumulated vacation pay up to specified limits upon termination of employment or retirement. The value of these vested rights, which is shown on the financial statements with the current portion shown in the Governmental Balance Sheet and the total liability is shown in the Statement of Net Assets. Total liability is approximately \$153,167 at December 31, 2004.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 8. BUDGET INFORMATION

The annual budget is prepared by the Road Commission management and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was adopted in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Road Commission's actual expenditures for the budgetary fund have been shown on a functional basis. The approved budget of the Road Commission for the General Fund was adopted to the functional level.

As of December 31, 2004, the Lenawee County Road Commission incurred expenditures in excess of amounts appropriated in several areas shown on the 'Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Operating Fund'.

NOTE 9. RETIREMENT PLANS

The Road Commission contributes to two retirement plans. Both are single employer plans; one is a defined benefit plan and the other is a defined contribution plan. Both are administered by the same insurance company.

Defined Benefit Plan

A. Plan Description

1. The Pension Plan for Employees of the Board of County Road Commissioners of the County of Lenawee is a single employer plan administered by the Board of County Road Commissioners - Lenawee County.
2. The plan was established by the Board of County Road Commissioners - Lenawee County and can be amended at its discretion, subject to the terms of the collective bargaining agreement. The plan provides retirement and death benefits to plan members and beneficiaries.
3. A financial report on this plan, including financial statements and required supplementary information, is available through the Lenawee County Road Commission.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 9. RETIREMENT PLANS (Continued)

B. Funding Policy

1. The Board of County Road Commissioners - Lenawee County, under its charter and through various collective bargaining agreements, has the authority to establish and amend the obligations of the Board of County Road Commissioners - Lenawee County and amend contributions made by plan members.
2. Active plan members are currently obligated to make contributions to the plan at the following rates:

\$6.00 a month from date of participation to annuity commencement date.

3. The Board of County Road Commissioners - Lenawee County contributes an amount on the basis of mutual agreement with the union.

Annual Pension Cost – For the year ended December 31, 2004, the Road Commission's annual pension cost of \$405,941 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003 using the entry age normal cost method. Significant actuarial assumptions used include (a) 7 percent investment rate of return, (b) projected salary increases of 3 percent per year, and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 10 years.

Additional pension plan information is as follows:

	<u>Fiscal Years Ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost (APC)	\$ 341,895	\$ 429,513	\$ 405,941
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-

LENAWEE COUNTY
COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

NOTE 9. RETIREMENT PLANS (Continued)

Actuarial Valuation as of January 1, 2002, 2003, and 2004

<u>Actuarial Valuation Date</u>	<u>Actuarial Value Of Assets</u>	<u>Actuarial Accrual Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL As % Of Covered Payroll</u>
1/1/02	\$ 1,991,987	\$ 2,635,978	\$ 643,991	75.6%	\$ 2,589,855	24.9%
1/1/03	2,227,351	3,843,515	1,616,164	58.0%	2,707,662	59.7%
1/1/04	2,294,349	4,464,809	2,170,460	51.3%	2,887,670	75.1%

Defined Contribution Plan

All full-time employees are eligible to participate in the plan after completing one-half year of service. Both the employee and employer are each required to contribute an amount equal to 1% of employee's compensation each month. Employee can also make nondeductible voluntary contributions not to exceed 25% of compensation. The Road Commission's contributions are vested as follows:

<u>Years of Service</u>	<u>Percentage of Vesting</u>
5 years	25%
6 - 10 years	Additional 5% for each year
11 - 15 years	Additional 10% for each year

Total contributions to the plans in 2004 were \$625,287. The contributions from the Road Commission was \$434,299 and from its employees \$190,988. Covered payroll for 2004 was \$2,929,571.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 576,256	\$ 619,221
Fringe benefits	507,106	532,530
Postage	2,866	2,399
Office supplies	12,374	9,440
Dues and subscriptions	11,018	11,551
Contractual services	17,413	14,920
Legal services	83,341	91,288
Auditing and accounting services	26,325	19,320
Computer maintenance and programming	112,941	119,856
Education	4,968	2,778
Travel and mileage	9,842	9,467
Advertising	4,588	5,054
Insurance – umbrella		23,665
Insurance – errors and omissions		22,160
Office equipment repair/maintenance	7,496	3,797
Miscellaneous	5,896	3,415
Depreciation – buildings	37,015	37,015
Depreciation – engineering equipment	5,722	5,359
Depreciation – office equipment and furniture	36,944	50,503
Other:		
Engineering supplies	1,751	8,242
Traffic control supplies		8,863
Rentals/equipment rental	<u>34,645</u>	<u>1,191</u>
	<u>\$ 1,498,507</u>	<u>\$ 1,602,034</u>

See independent auditors' report.

LENAWEE COUNTY
COUNTY ROAD COMMISSION
GENERAL OPERATING FUND
SCHEDULE OF ACCOUNTS RECEIVABLE

December 31, 2004

TOWNSHIPS:

Adrian	\$ 287
Cambridge	(32)
Clinton	14,502
Hudson	(1,118)
Palmyra	47,008
Ridgeway	(15,414)
Rome	220,396
Seneca	722
Tecumseh	14,970
Woodstock	<u>132,960</u>
Total	<u>\$ 414,281</u>

OTHER RECEIVABLES:

Developers	\$ (21,747)
Great Lakes Waste Systems	65,914
Cumulative total of individuals and organizations with small balances	<u>18,830</u>
	62,997
Less: Allowance for doubtful accounts	<u>(20,000)</u>
Total	<u>\$ 42,997</u>

See independent auditors' report.